

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 IO-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 H-01 PA-01 PRS-01 USIA-06 SAM-01 ABF-01

PER-01 CU-02 AGR-05 /096 W  
----- 025729

P R 042212Z MAR 75

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC PRIORITY 0160

INFO AMEMBASSY BRASILIA

AMEMBASSY SANTIAGO

AMEMBASSY ASUNCION

AMEMBASSY MONTEVIDEO

AMEMBASSY LA PAZ

USMISSION GENEVA

C O N F I D E N T I A L BUENOS AIRES 1490

DEPT PASS TREASURY & COMMERCE

GENEVA FOR US TRADE DELEGATION

E.O. 11652: GDS

TAGS: EFIN, AR

SUBJECT: ARGENTINA DEVALUES

REF: A) BA-251; B) BA-34

SUMMARY: MARCH 3, ONLY THREE DAYS FOLLOWING ACROSS BOARD WAGE  
INCREASES GOA DEVALUED PESO AND INTRODUCED WIDE  
RANGING CHANGES IN EXCHANGE SYSTEM AS WELL. DEVALUATION WAS  
NOT UNEXPECTED & FINANCIAL SITUATION TODAY (MARCH 4) QUITE  
NORMAL.

END SUMMARY.

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GENERAL - BASIC FINANCIAL RATE MOVED FROM 9.93/9.98 PESOS PER DOLLAR TO 15.05/15.10 PESOS PER DOLLAR. COMMERCIAL RATE RAISED FROM 5 PESOS TO 10 PESOS PER DOLLAR. IN ADDITION, INTERMEDIATE RATE OF 13.03/13.06 PESOS PER DOLLAR ESTABLISHED FOR SELECTED IMPORTS AND EXPORTS I.E. 60 PERCENT AT FINANCIAL RATE AND 40 PERCENT AT COMMERCIAL RATE.

IN ANNOUNCING DEVALUATION, ECONOMY MINISTER GOMEZ MORALES EMPHASIZED NEED TO INCREASE COMPETITIVENESS GOA EXPORTS AND REDUCE PRESSURE ON TRADE BALANCE, NOTING ALSO FAVORABLE IMPACT ON TREASURY'S FINANCIAL SITUATION. HE STRESSED GOA DECIDED TO ACT NOW WHILE RESERVES HIGH TO AVOID FUTURE EXTERNAL OBLIGATIONS WHICH INCOMPATIBLE ARGENTINE INDEPENDENCE.

IMPORTS - UNDER NEW REGIME, IMPORTS DIVIDED IN THREE LISTS. PRODUCTS ON LIST A - MAINLY KEY IMPORTS - RECEIVE COMMERCIAL RATE OF 10 PESOS PER DOLLAR, WHILE LIST B PRODUCTS RECEIVE MIXED RATE OF 13.06 PESOS PER DOLLAR, AND LIST C PRODUCTS GET FINANCIAL RATE OF 15.10 PESOS PER DOLLAR. UNDER OLD REGIME, THERE WERE ONLY TWO IMPORT LISTS. PRODUCTS ON LIST 1 RECEIVED MIXED 8.68 RATE (I.E. 74 PERCENT AT 9.98 PESOS PER DOLLAR AND 26 PERCENT AT 5 PESOS PER DOLLAR) WHILE LIST 2 IMPORTS RECEIVED FINANCIAL RATE OF 9.98 PESOS PER DOLLAR.

IN ADDITION TO ABOVE DEVALUATION IMPORT RATE, SEVERAL COMPLEMENTARY RESOLUTIONS TIGHTEN GOA IMPORT CONTROLS. IN FUTURE, IMPORT APPLICATIONS WILL BE MORE CLOSELY SCRUTINIZED BY MINISTRY OF ECONOMY. APPROVALS WILL BE LIMITED TO FOUR MONTHS IMPORT REQUIREMENTS. MOREOVER, NUMEROUS EXCEPTIONS FROM PRIOR IMPORT DEPOSIT REQUIREMENTS APPROVED IN RECENT YEARS ARE RESCINDED.

EXPORTS - EXPORTS NOW ALSO DIVIDED IN THREE MAJOR CATEGORIES. PROMOTED EXPORTS RECEIVE FINANCIAL RATE OF 15.05 PESOS PER DOLLAR; A SHORT LIST OF EXPORTS (MAINLY FRUITS, TOBACCO AND LEATHER) WILL RECEIVE MIXED RATE OF 13.03 PESOS PER DOLLAR, WHILE REMAINING EXPORTS (MOSTLY TRADITIONAL AGRICULTURAL ITEMS) WILL RECEIVE COMMERCIAL RATE OF 10 PESOS PER DOLLAR. PREVIOUSLY, PROMOTED EXPORTS GOT 8.65 PESOS PER DOLLAR.

SUBSIDIES & TAXES - TO MAINTAIN APPROPRIATE EFFECTIVE EXCHANGE RATE, NEW REGIME ALSO CHANGES SUBSIDY AND TAX SYSTEM, ELIMINATING SUBSIDIES ALTOGETHER WHEN PREVIOUS RATE LESS

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THAN 30 PERCENT. PROMOTED EXPORTS WHICH BEFORE GOT 30 PERCENT, 35 PERCENT OR 40 PERCENT SUBSIDY NOW RECEIVE 5 PERCENT, 10 PERCENT OR 15 PERCENT SUBSIDY, WHILE TRADITIONAL EXPORTS BEFORE RECEIVING 35 PERCENT OR 40 PERCENT SUBSIDY NOW RECEIVE 5 PERCENT OR 10 PERCENT RATE. EXPORT TAXES ON TRADITIONAL ITEMS GENERALLY RAISED 5 TO 13 PERCENT WITH MAXIMUM RATE OF 64 PERCENT COMPARED WITH PREVIOUS 59 PERCENT. INCLUDING SUBSIDIES AND TAXES,

EFFECTIVE EXCHANGE RATE NOW RUNS FROM LOW OF 3.6 PESOS  
PER DOLLAR FOR CERTAIN TRADITIONAL ITEMS TO HIGH OF  
17.3 PESOS PER DOLLAR FOR PROMOTED EXPORTS.  
COMMENT: DEVALUATION NOT UNEXPECTED AND LOCAL REACTION  
THUS FAR QUITE CALM. REPORTEDL6, FLL FINANCIAL MARKETS  
OPERATING NORMALLY BUT AT LOW VOLUME. PARALLEL MARKET MARCH 4  
QUOTED AT 23.50.  
SOME OBSERVERS BELIEVE CURRENT DEVALUATION NOT ENOUGH  
TO STIMULATE EXPORTS FOR LONG IN VIEW SHARPLY RISING  
DOMESTIC INFLATION. THIS PROBABLY TRUE, ALTHOUGH GOA  
NOW HAS CONSIDERABLE FLEXIBILITY TO PROVIDE ADDITIONAL  
INCENTIVE BY INCREASING SUBSIDIES, REDUCING TAXES AND/OR  
SHIFTING PRODUCTS TO HIGHER EXCHANGE RATE.  
BASED ON DECREES IT LOOKS LIKE GOA IS PLANNING TOUGHER  
IMPORT CONTROL POLICY THAN INITIALLY ANTICIPATED.  
MAJOR POSITIVE EFFECTS OF DEVALUATION LIKELY INCLUDE  
IMPROVEMENT IN TRADE BALANCE, IMPROVEMENT TREASURY FINANCIAL  
SITUATION, AND POSSIBLY SOME STIMULUS TO CAPITAL INFLOW.  
MAJOR DISADVANTAGES ARE LIKELY INFLATIONARY IMPACT, AND  
PERHAPS SOME WORSENING OF DOMESTIC SHORTAGES.  
FURTHER ANALYSIS, REACTION, AND TRANSLATION OF DECREES  
FOLLOW BY AIRGRAM.  
HILL

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, DEVALUATIONS, FINANCIAL TRENDS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 MAR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Errors:** N/A  
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